THE ROLE OF UNEMPLOYMENT INSURANCE AND

THE IMPORTANCE OF THE UI PROGRAM TO THE PEI ECONOMY

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EXECUTIVE SUMMARY

Introduction

Originating in 1940, the Unemployment Insurance Program provides income protection to workers from the time they leave one job until they start another job. Because of the seasonal nature of the PEI economy, the UI program plays an important role in supplementing the income of many Islanders.

The purpose of this paper is to discuss the role of unemployment insurance and its importance to the PEI economy.

The Unemployment Insurance Program

History of the UI Program

During the 1940's, the UI Program operated very much along the principles of a social insurance program. Nevertheless, coverage was not universal as people in seasonal jobs and those in more secured permanent jobs were not covered by the Program.

The 1950's was a decade of re-adjustments to the Program. Some of the changes were: a reduction in the waiting period, increase in benefit rates, increased duration of benefits and increase in allowable earnings.

There were few changes made to the UI Program during the 1960's. Most adjustments were made to keep up with earnings and the cost of living.

In 1971, a new Unemployment Insurance Act was legislated as a new and more generous program was designated. This new act increased the number of insured workers and coverage was expanded to include sickness, maternity leave and retirement. Changes were made to the new UI Act during the 1970's to address some concerns such as work incentive and equity.

During the 1980's, there were a number of changes made to the UI Program to address changes in labour force requirements. Some of the changes are: changes in entrance requirements; changes in length of benefit duration; stricter penalties for voluntary quitters; withdrawal of Federal Funding from the Program; and, re-allocation of UI benefits to labour force development programs such as training.

Role of the UI Program

The Unemployment Insurance Program provides individuals with income protection when they become unemployed. This income protection provides individuals with an opportunity to find another job while maintaining a certain standard of living.

While it is not the objectives of the Program, the UI Program also distributes income to lower income groups and redistributes income from one Province or region to another.

The UI Program acts as an economic stabilizer by reducing the impact of an interruption in earnings to other businesses in the economy. Unemployed individuals who are eligible to collect unemployment insurance are able to maintain a certain level of demand for goods, thus decreasing the chances of unemployment spreading to workers in other businesses.

Unemployment insurance provides unemployed people with a temporary form of income, enabling them to take the time to search for a new job that is suitable to them. Although this is the main objectives of the program, it may not be possible for unemployed workers to seek and obtain suitable jobs. For example, in a seasonal economy such as PEI, new jobs may not be available. As a result, income from unemployment insurance may be ongoing for those whose jobs are seasonal.

The Nature of Unemployment on PEI

Types of Unemployment

Economists have identified several different types of unemployment based on the different causes. The following five types were discussed in this report: frictional, structural, demand deficient, seasonal and insurance induced.

Factors Influencing the Unemployment Rate

Increases in the working age population have occurred as a result of the aging baby boom generation and changes to immigration policy.

With increases in the working age population, participation rates have also increased. As well, changes in societal attitudes towards work has resulted in increases in the participation rate as more females enter the labour force.

Between 1975 and 1991, the participation rate of females on PEI increased by 17 percentage points, from 41.4 percent to 58.4 percent. In comparison, the participation rate for males decreased slightly from 72.2 percent to 72.1 percent. Thus, females accounted for all the increase in participation rates on PEI between 1975 and 1991.

Agriculture, fishing and tourism are the three major industries in the PEI economy. Activities within these industries are very seasonal. With the seasonal nature of the Island economy, there is an increase in the number unemployed during the off season period.

Statistics indicate the economy has become more seasonal. The difference between the maximum and minimum unemployment rate was 11.6 percentage points in 1991 compared to 5.9 percentage points in 1976.

The 1990-91 recession has had an impact on employment levels as average employment in PEI decreased from 55,000 in 1990 to 53,000 in 1991. Similarly, average employment in Ontario and Canada as a whole decreased by 3.4 and 1.8 percent respectively between 1990 and 1991.

Changes in Federal Government policies can also result in higher unemployment levels. For example, the closure of the Canadian Forces Base in Summerside has resulted in the direct loss of civilian jobs associated with the base and indirect jobs within the business community.

Prince Edward Island's participation rate increased by 7.3 percentage points to a record high of 66 percent between 1981 and 1990.

Between 1981 and 1991, Prince Edward Island's labour force grew at a faster rate (20.8%) than the Canadian labour force (15.6%). Similarly, during this same time period, employment levels on PEI have grown at a faster pace (12.8%) than Canadian employment levels (12.2%). Although employment levels on PEI have increased (6,000) between 1981 and 1991, they have not been able to keep pace with growth in the labour force (11,000). These two factors help explain the rise in PEI's unemployment rate.

The UI Program on PEI

Growth of UI Benefits

Prince Edward Island recorded a 58 percent increase in the amount of unemployment insurance benefits received between 1986 and 1991. During the same time period, the average number of beneficiaries on PEI increased by 16.4 percent. In addition to an increase in the number of beneficiaries, the increase in the amount of unemployment insurance benefits is also affected by the wage rates of those who are receiving unemployment insurance benefits.

In 1991, Prince Edward Island received a higher percentage of unemployment insurance benefits (1.1%) compared to Prince Edward Island's percentage share of the Canadian population (0.5%).

Contribution of UI Benefits to Provincial GDP

In 1990, UI benefits accounted for 7.7 percent of Provincial GDP.

Between 1985 and 1990, total UI benefits have grown at approximately the same rate as GDP.

Indirect expenditures from UI payments amounted to approximately $51 million for PEI in 1991.

Unemployment Insurance Benefits and Personal Income

Unemployment insurance benefits account for a much higher percentage of total personal income on PEI than in Canada and the other Atlantic Provinces except for Newfoundland (in 1990, 7.2% - PEI, 9.3% - Nfld., 3.9% - Nova Scotia, 5.4% - New Brunswick and 2.2% - Canada).

Between 1978 and 1990, unemployment insurance benefits accounted for between 5.1 to 7.9 percent of total personal income on PEI, while unemployment insurance benefits accounted for 1.6 to 3.0 percent of Canadian total personal income.

Amount of Contributions to the UI Program

Total contributions from employers and employees increased by 109 percent in PEI between 1983 and 1991, and increased by 108 percent for Canada during this same time period.

Contributions from Prince Edward Island employers and employees form a small portion of the total benefits paid in comparison to Canada and the other Atlantic Provinces except Newfoundland. For example, in 1991, Prince Edward Island employers' and employees' contributions accounted for 27 percent of total benefit payment received compared to 84 percent for Canada, 23 percent for Newfoundland, 58 percent for Nova Scotia and 42 percent for New Brunswick.

Benefit Payment Per Beneficiary

Prince Edward Island recorded a lower amount of benefits paid per beneficiary in October 1991 compared to Newfoundland and Canada.

Between October 1986 and October 1991, the percentage increase in benefits per beneficiary for PEI was above the increases recorded for Canada and the other Atlantic Provinces with the exception of Newfoundland.

Between October 1986 and October 1991, Prince Edward Island experienced a continual increase in the amount of benefits per beneficiary.

Number of Unemployment Insurance Beneficiaries

A beneficiary is defined as a person who received an unemployment insurance payment of at least $1.00.

The number of UI beneficiaries in Canada increased by 20 percent between October 1986 and October 1991.

Between October 1986 and October 1991, Prince Edward Island recorded the largest increase in the number of beneficiaries among the Atlantic Provinces (PEI - 28%, Nova Scotia - 25%, New Brunswick - 15%, and Newfoundland - 11%). The fact that PEI has had a continual higher participation rate than the other Atlantic Provinces may be attributing to the larger increase in the number of beneficiaries on PEI.

The average number of unemployment insurance beneficiaries in PEI increased by 13.1 percent between 1990 and 1991. During this same time period, the average number of beneficiaries increased in Nova Scotia (12.8%), New Brunswick (11.8%), Newfoundland (8.4%) and Canada overall (21.5%).

UI Claimants by Occupation

The number of unemployment insurance claims increases considerably during the winter months. During 1991, the number of UI claims ranged from a high of 23,058 in March 1991 to a low of 14,258 in September 1991.

Unemployment insurance claims for fishing occupations increased considerably during the winter months. There were 1,393 fishing claims in June 1991, this increased to 3,179 for December 1991.

On average, during 1991, there were a large number of UI claims in construction (3,013), clerical and related (2,154), service (2,089), fishing (1,962), occupations not elsewhere classified (1,791), processing (1,786), farming (1,309), and transport equipment (1,123).

UI Dependency Ratio by Region

Statistics Canada provides a measurement of reliance on unemployment insurance by the ratio of UI benefits to employment income. The higher the ratio, the greater the dependency.

An examination of Statistics Canada's UI dependency ratio for sub-provincial areas in PEI for 1986 shows a higher dependency for the rural areas than the urban areas. For example, in the Upper West Prince Area, the UI Program provided approximately 47 cents in UI benefits for every $1.00 in employment income, compared to 6 cents in the Central Charlottetown area.

The primary reasons for the higher ratio of UI benefits to employment income in the rural areas versus the urban areas are the reliance on agriculture and fishing in rural areas and the seasonality of the PEI economy.

The percentage of tax filers receiving UI benefits has not changed significantly between 1984 and 1988. For example, the percentage for the South Summerside area increased from 32 percent in 1984 to 34 percent in 1986 and 1988. The percentage for West Charlottetown area decreased from 27 percent in 1984 to 23 percent in 1986 and further to 22 percent by 1988.

Forecast of the Unemployment Rate

The PEI economy faces a number of challenges and opportunities on both the demand and supply side. For example, on the demand side an increasingly competitive market place, fiscal restraint and adaptation of new technology will affect labour market requirements.

On the supply side, the increasing female participation rate as well as Federal Government Policy changes such as the closure of CFB Summerside will affect the labour supply and will also impact on the number of people who utilize the UI Program.

In its October 1991 forecast, the Conference Board of Canada forecast an average annual unemployment rate on PEI in 1991 of 16.7 percent. This compares with the 16.8 percent recorded by Statistics Canada.

For 1992 and 1993, the Conference Board of Canada is forecasting PEI's unemployment rate to be 16.6 and 16 percent respectively. If unemployment rates continue to remain at high levels, there will likely be a continual strong demand on the UI Program.

1.0 Introduction

Canada and provincial income security systems comprise over 80 different programs. The Unemployment Insurance Program (UI) is the most significant and visible of these programs. UI plays a strong and vital role in the national and provincial economies and in the socio-economic lives of most Canadians. The income security system evolved in a piece-meal fashion over the past 50 years as dozens of programs were designed to achieve a large number and broad range of objectives. The MacDonald Commission stated that the two key goals assigned to the income security system are:

1. To support the income of households whose resources are regarded inadequate; and,

2. To protect the income of persons who are retired or who face certain socio-economic risks such as unemployment, illness, occupational accidents or the death of a spouse.

The UI program assists those individuals who face unemployment for a variety of reasons. Because of the seasonal nature of the PEI economy, the UI program and unemployment insurance benefits play an important role in supplementing the income of many Islanders. The objectives of this report are to identify and discuss the role of unemployment insurance, and identify the importance of the UI program to PEI.

This paper begins with a discussion of the history of the Unemployment Insurance Program.

2.0 The Unemployment Insurance Program

Originating in 1940, after the Great Depression, the UI Program has gone through numerous transition phases and refinements in response to changing economic and social conditions.

2.1 History of the UI Program

During the 1940's, the UI Program operated very much along the principles of a social insurance program. The UI Program provided income protection to workers (who qualified) from the time they left one job until they started another job. During the 1940's, coverage was not universal. For example, workers who experienced recurring unemployment (seasonal workers) and those in more secured permanent jobs were not covered under the program. As well, there were some adjustments and changes made in the 1940's to contributions made and benefits paid as some problems arose shortly after the new program began.

During the 1950's, there were a number of adjustments made to the UI Program.

> "The 1950's was a decade marked by continuing readjustments to UI in response to needs, pressures and changing circumstances. Qualifying conditions were eased and benefits were enriched by reducing the waiting period, increasing benefits rates, lengthening durations and increasing allowable earnings."[1]

These changes, together with adverse economic conditions, resulted in significant increases in contribution rates by the late 1950's.

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1. Employment and Immigration Canada, A Chronology of Response: The Evolution of Unemployment Insurance from 1940 to 1980, Prepared by Gary Dingledine (Minister of Supply and Services, 1981), p. 41.

During the 1960's, few changes were made to the UI Program. Most of the changes made were adjustments in keeping up with the levels of earnings and cost of living. Nevertheless, by the late 1960's, there was evidence of public dissatisfaction with the UI Program. In response to the dissatisfaction, the Gill Committee was set up to review the entire program.

As a result of this review, a new and more generous program was designed and a new UI Act was legislated in 1971. The new Act increased the coverage of the program as the jobs of more workers became insurable. As well, coverage was expanded to include sickness, maternity, and retirement. Shortly after the new Act was legislated in 1971, concerns began to arise regarding the impact of these new UI changes in areas such as work incentives. During the 1970's, additional changes were introduced to the new UI Act (of 1971) to address these concerns and also other concerns such as equity.

During the 1980's, there were a number of changes in the economy that certainly impacted on future labour market requirements. For example, the introduction of new technology, international competition and free trade are all impacting on the occupational mix as well as skill requirements. In order to address some of the impacts of these changes, the Federal Government introduced a number of changes to the Unemployment Insurance Program in Bill C-21. Bill C-21 received Royal Assent on October 23, 1990 and came into effect on November 18, 1990.

Some of these changes are:

1. Changes in entrance requirements: The minimum number of weeks required to qualify for UI changes from 10-14 weeks to 10-20 weeks, depending on the unemployment rate in the region.

2. Changes in length of benefit duration: The length of time people will be able to receive UI benefits will be reduced depending on both the number of weeks worked (i.e. number of weeks of insured employment) and the unemployment rate in the region.

3. More strict penalties for those who voluntarily quit their job: Longer waiting period for those who quit voluntarily (7-12 week waiting period compared to 1-6 weeks previously). As well, a reduction in the benefits received (50% of insured earnings compared to 60% previously).

4. Withdrawal of Federal funding for the program leaving the employer and employee premiums as the sole revenue source.

5. Reallocation of UI benefits to other programs.

These changes will result in a reduction in UI benefits paid. The Federal Government is re-allocating these funds to expand coverage of some UI programs and to increase funds for labour force development programs, such as training.

In summary, the UI Program has undergone a number of changes since it was originally designed in 1940. These changes have been necessary in keeping with changing economic and social conditions. In order to fully understand the necessity of these changes, one must also be aware of the roles of the UI Program.

2.2 Role of the UI Program

When it was established, the main role of the UI Program was to serve as income protection against loss of income due to loss of employment. While these are not main objectives of the Program, the UI program serves a number of other roles such as income re-distribution to lower income groups as well as from one region to another, economic stabilization, and also labour market adjustment. Each of these roles will be discussed below in order to understand the benefits of this program.

2.2.1 Income Protection

The Unemployment Insurance Program serves as protection against loss of income due to loss of employment. By providing unemployed people with a temporary form of income, individuals are able to maintain a certain standard of living.

The UI program operates as a social insurance program, nevertheless; it differs from other social insurance programs in a number of ways. For example, eligibility for social insurance programs is dependent on need while eligibility for UI is dependent on the weeks of insured employment and the unemployment rate in the region. Individuals receive UI for a maximum period of time (which is dependent on the unemployment rate in the region you live in and the number of weeks of insured earnings) while social insurance duration depends on need. Although it is not an objective of the Program, the UI program also assists in redistributing income from one region to another.

2.2.2 Income Re-distribution

In its income re-distribution role, the UI program distributes income to lower income groups. This occurs mainly because people in lower income levels tend to become unemployed more often than those in higher income levels. As well, lower income earners also tend to remain unemployed for longer periods of time. Unemployment insurance also re-distributes income from one province or region to another. For example, in 1990, PEI paid approximately $45 million in contributions but received $154 million in benefits, compared to Ontario who contributed $5,280 million to the program and received $3,419.2 million in benefits. In addition to its ability to redistribute income, the UI program also aids in economic stabilization.

2.2.3 Economic Stabilization

The UI Program acts as an economic stabilizer by helping to reduce the impact of an interruption in earnings to other businesses in the economy. For example, when some businesses lay off some of their workers, these workers may be able to collect unemployment insurance, thus maintaining a certain level of disposable income. Thus, individuals who are unemployed are able to maintain their demand for certain goods. As a result, it is less likely that unemployment will spread to workers who are employed in other firms if demand for their products remain. In addition to an economic stabilizer, the UI Program helps the labour market adjust to changes in the demand for labour.

2.2.4 Labour Market Adjustment

By providing the unemployed with a temporary form of income, unemployed individuals are more willing to take the time to seek out a new suitable job. This helps to reduce mismatches of jobs and workers as people are not pressured to take the first job available.

Unemployment insurance may be an incentive for some claimants to remain unemployed for longer periods of time. Some may engage in longer periods of job search because of the supplementary income available through UI. Although individuals may remain unemployed for a longer period of time, it may decrease the turnover rates if individuals are successful in finding a suitable job.

In order to understand the role of the Unemployment Insurance Program in the PEI economy, it is important to first consider the nature of unemployment on PEI.

3.0 The Nature of Unemployment on PEI

Numerous types of policies and programs have been developed to combat the various types of unemployment that exist in different types of economies. Some programs are more effective than others in coping with different types of unemployment. In order to address some of the factors that contribute to unemployment on PEI, a discussion of the types of unemployment will be presented.

3.1 Types of Unemployment

Economists have identified several different types of unemployment based on the different causes. Gunderson (1980) defined the following five types: frictional, structural, demand-deficient, seasonal and insurance induced.

Frictional Unemployment

Frictional unemployment exists when jobs are available but the people searching for these jobs have not been matched up with the right jobs. This may occur as a result of people leaving their jobs in search of a better job. Gunderson (1980) indicated "frictional unemployment can be thought of as unemployment that would prevail even in a well-functioning labour market."[2] There will always exist a certain amount of frictional unemployment as people will leave one job in search for a better job.

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2. Labour Market Economic Theory, Evidence and Policy in Canada, Gunderson, 1980, p. 288.

Structural Unemployment

Gunderson said, "Structural unemployment results when the skills or location of the unemployed are not matched with the characteristics of the job vacancies."[3] This can result when the demand for labour changes and since employees cannot easily move from their current job to a different type of job, unemployment occurs. To address the problem of structural unemployment, governments have been implementing re-training programs and incentives to re-locate.

Demand-Deficient Unemployment

Gunderson (1980) indicates, "Demand-deficient unemployment exists when there is insufficient aggregate demand in the economy to provide jobs." In other words, a larger labour supply exists in comparison to demand, thus the number of people seeking jobs exceeds the demand for these workers. This type of unemployment exists on Prince Edward Island as the number of people seeking employment (total labour force) exceeds the number of jobs available.

Seasonal Unemployment

Seasonal unemployment is caused by increases and decreases in the demand for labour due to changes in economic activity associated with a particular season. For example, agriculture, fishing and tourism are seasonal industries in PEI. During the winter months, there is a decrease in demand for labour within these industries but demand for labour increases during the spring and summer.

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3. Labour Market Economic Theory, Evidence and Policy in Cnaada, Gunderson, 1980, p. 289.

Insurance Induced Unemployment

Insurance induced unemployment is created by the existence of unemployment insurance. Some economists have indicated that the Unemployment Insurance Program is an incentive for some people to remain unemployed for longer periods of time. As discussed earlier, because of its income protection, some people may engage in longer periods of job search as people may be more particular about the type of job they obtain. It is extremely difficult to identify if there are Islanders who work solely because of the availability of unemployment insurance.

Although there are a number of types of unemployment, the predominant form on PEI is seasonal. Agriculture, fishing and tourism are the three main industries on PEI and work in these industries is seasonal. Although manufacturing and service sector industries are also important to the Island economy, they are dependent on activities within agriculture, fishing and tourism. The next section will identify some of the factors affecting the unemployment rate on PEI.

3.2 Factors Influencing the Unemployment Rate

There are a number of important factors affecting the rate of unemployment or the relationship between the supply of and demand for labour. On the supply side, the primary determinants include demographic characteristics, wage rates, working conditions, general economic conditions as well as such factors affecting the decision to look for employment. On the demand side, a variety of factors determine how much of the labour force will be employed. For example, economic structure, economic conditions (such as interest rates and the inflation rate) as well as the rate of technology innovation and adoption. This section will examine some of these factors to explain how they have impacted on the unemployment rate on PEI.

The first area for discussion will be trends in demographic characteristics.

3.2.1 Demographic Characteristics

The impact of the baby boom generation on the working age population can be clearly illustrated by examining the total population and the working age population.

TABLE 1
POPULATION AND WORKING AGE POPULATION
Canada, PEI - 1966-1991
('000)

	CANADA			PRINCE EDWARD ISLAND		
Year	Total Population	Population 15+	Percent	Total Population	Population 15+	Percent
1966	20014.9	13083	65.4	108.5	68	62.7
1971	21568.3	14872	69.0	111.6	74	66.3
1976	22992.6	16701	72.6	118.2	83	70.2
1981	24341.7	18368	75.5	112.5	90	80.0
1986	25353.0	19397	76.5	126.6	94	74.2
1990	26602.6	20430	76.8	130.3	98	75.2
1991	26991.6	20746	76.9	130.3	98	75.2

Source: Statistics Canada 71-201, 91-210

The working age population for PEI grew from 62.7 percent to 70.2 percent of the total population between 1966 and 1976 and increased further to 75.2 percent by 1991. In Canada, the working age population accounted for 65.4 percent of the total Canadian population in 1966 and increased to 76.9 percent in 1991.

In addition to the aging of the baby boom generation, changes in immigration policy have increased the number of immigrants admitted to Canada, thus impacting on the working age population. With an increase in the working age population, one would expect an increase in the number of people participating in the labour force.

3.2.2 Participation Rate

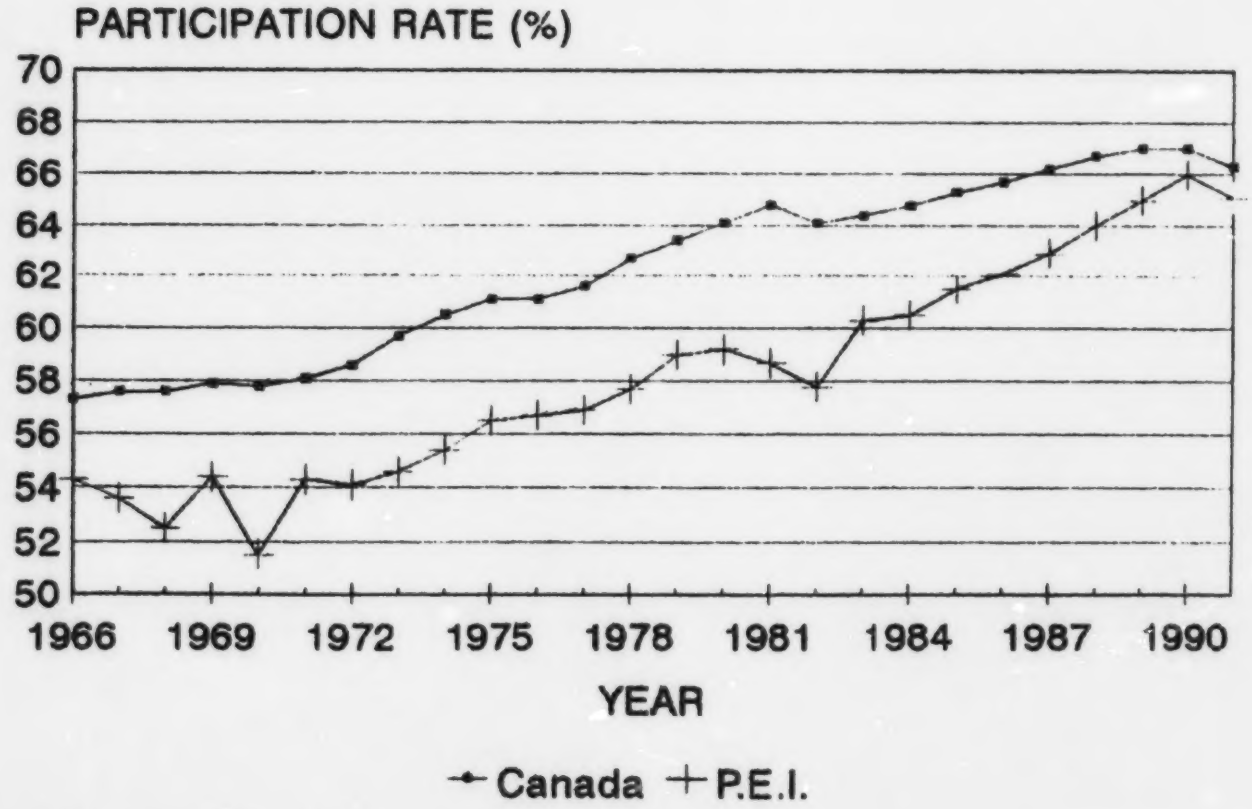
The participation rate is defined as the percentage of the working age population who are either working or looking for work. Figure 1 illustrates the trend in participation rates for Canada and PEI from 1966 to 1991. Figure 1 shows that the Canadian and Prince Edward Island participation rates have been consistently increasing with the exception of minor declines during the recessions of the early 1970's and early 1980's. PEI's rate has almost reached the Canadian rate.

As mentioned in the previous section, the aging of the baby boom generation and changes in immigration policy have contributed to increases in the working age population and, thus, increases in labour force participation. As well, changes in societal attitudes towards work have also resulted in increases in the participation rate. For example, between 1975 and 1991, the participation rate of females in the PEI labour force increased from 41.4 percent to 58.4 percent, an increase of 17 percentage points, compared to an decrease of 0.1 of a percentage point for males (72.2% in 1975 compared to 72.1% in 1991). During this same time period, the female participation rate in Canada increased by 13.8 percentage points while the male participation rate decreased by 3.6 percentage points. PEI's participation rates have increased more rapidly than the Canadian rates.

Thus, the increase in female participation has also contributed to the increase in the supply of labour. In addition to large increases in labour force participation rates, the participation rate is very volatile during the year.

FIGURE 1: TREND OF PARTICIPATION RATES

P.E.I. AND CANADA (1966-1991)



Source: Statistics Canada
Catalogue 71-001

3.2.3 Seasonal Nature of the Economy

As discussed earlier, agriculture, fishing and tourism are the three major industries in the PEI economy. Activity within these industries is very seasonal. Figure 2 clearly illustrates the extreme cyclical nature of the PEI economy. Figure 2 illustrates the month to month growth of employment from January 1987 to December 1991. During 1991, employment rose from 48,000 in January to 61,000 in August, a difference of 13,000. Thus, the heavy reliance on seasonal employment results in an increase in the number unemployed during the off-season period.

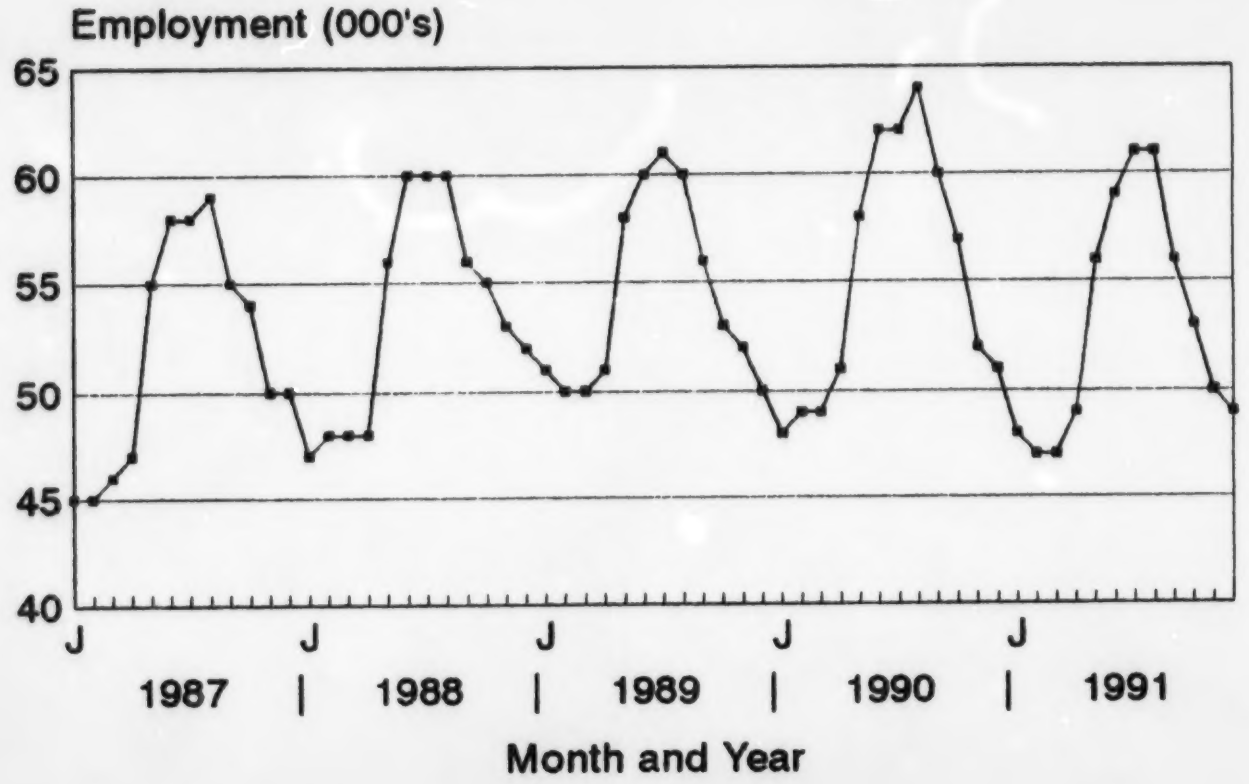
Employment levels also indicate that the economy has become even more seasonal. The difference between the highest and lowest actual unemployment rate within a year has increased. For example, in 1991, PEI unemployment rate reached a high of 23.1 percent in March of 1991 and a low of 11.5 percent in August, a difference of 11.6 percentage points. This is almost double the difference between the maximum and minimum actual unemployment rate recorded in 1976 (5.9 percentage points). This large increase in minimum and maximum unemployment rates is a result of an increase in the number of people working in seasonal jobs. In 1976, employment rose by 8,000 from January to peak in July. By 1991, employment rose by 13,000 from January to peak in August. This shift towards more seasonal economy may be attributed to the large increase in the service sector as work in industries such as tourism are very seasonal. In addition to high and low employment levels within a year, there have been declines in overall employment opportunities as a result of the 1990-91 recession.

3.2.4 1990-91 Recession

The impact of the recession on the PEI economy can be explained by examining employment levels. During 1990, average employment on PEI was 55,000. This declined to 53,000 for 1991. As well, there were large declines experienced in seasonal employment levels, as employment for August 1990 reached a record

FIGURE 2: TREND OF EMPLOYMENT ON PEI

(1987-1991)



Source: Statistics Canada
Catalogue 71-001

high of 64,000 and declined to 61,000 by August 1991. The impacts of the recession are being felt in other parts of the country as well. For example, average employment in Canada during 1991 declined by 1.8 percent when compared to 1990. Similarly, in Ontario, employment levels declined by 3.4 percent between 1990 and 1991.

Another measure of the impact of the recession is the number of businesses that declared bankruptcy during a year. Data on bankruptcies show an increase in the number of businesses who declared bankruptcy in PEI during 1991 (23) compared to 1990 (18). Similarly in 1991, Ontario had 3,629 businesses who declared bankruptcy, compared to 2,907 in 1990, an increase of 24.8 percent. In addition to a decline in business activity, Federal Government policy changes have also had an impact on businesses, as well as a direct impact on the province's unemployment rate.

3.2.5 Federal Government Policy Changes

Changes in some Federal Government policies can result in higher levels of unemployment in PEI. One example is the closure of Canadian Forces Base Summerside. Although military jobs have been transferred to other locations, there has been a direct loss of civilian jobs associated with the Base and an indirect loss due to the impact of the base closure on the business community.

The Atlantic Provinces Economic Council (APEC), in their May 1989 Newsletter, estimated PEI's unemployment rate would increase by 2 or 3 points over the 1989 level because of the base closure. The seasonally adjusted unemployment rate increased from 13.9 percent in April 1989 to 16.7 percent in April 1991. Although this 2.8 percentage point increase can not be solely attributed to the closure of CFB Summerside, the base closure has certainly attributed to part of this increase.

In order to understand the impact these factors have had on the unemployment rate in the Province, a review of labour force trends during the past 10 years would be beneficial.

3.3 Labour Force Trends

Table 2 illustrates labour force data for PEI from 1981 to 1991. Prince Edward Island's participation rate increased by 7.3 percentage points to a record high of 66 percent between 1981 and 1990, but declined slightly to 65.1 percent in 1991. With the increase in the participation rate, one would expect an increase in the labour force. Between 1981 and 1991, Prince Edward Island's labour force has grown from 53,000 to 64,000, an increase of 20.8 percent. During this same time period, the Canadian labour force increased by 15.6 percent. Thus, Prince Edward Island's labour force grew at a faster rate than Canada's overall. As mentioned earlier, growth in PEI's labour force can be partially attributed to the increase in the number of females participating in the labour force. Between 1981 and 1991, the female labour force on PEI increased by 8,000 from 21,000 to 29,000. During this same time period, the male labour force increased by 3,000 from 31,000 to 34,000. Although there may be significant growth in the labour force, unless it is accompanied by general economic growth and employment growth, residual unemployment will result.

TABLE 2
LABOUR FORCE, PARTICIPATION RATES, EMPLOYMENT,
UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR
PRINCE EDWARD ISLAND
(1981-1991)

Year	Participation Rate	Labour Force	Employment	Unemployment	Unemployment Rate
1981	58.7	53	47	6	11.2
1982	57.8	52	45	7	12.9
1983	60.3	55	48	7	12.2
1984	60.5	56	49	7	12.8
1985	61.5	58	50	8	13.3
1986	62.1	59	51	8	13.4
1987	62.9	60	52	8	13.2
1988	64.0	62	54	8	13.0
1989	65.0	63	54	9	14.1
1990	66.0	65	55	10	14.9
1991	65.1	64	53	11	16.8

Source: Statistics Canada 71-001, 71-201

Employment on PEI increased by 6,000 from 47,000 in 1981 to 53,000 in 1991. Employment by sex indicates that females accounted for all of this increase in employment between 1981 and 1991 (1981 - 19,000 employed, 1991 - 25,000 employed). During this same time period, employment levels for males remained constant at 28,000. As mentioned earlier, PEI's labour force increased by 20.8 percent (11,000) between 1981 and 1991, while employment levels increased by 12.8 percent (6,000). Although employment levels in PEI grew at a faster pace (12.8%) than in Canada (12.2%) during the last decade, growth in employment has not been able to keep pace with growth in the labour force, resulting in an increase in residual unemployment.

Prince Edward Island's unemployment rate increased from 11.2 percent in 1981 to 16.8 percent in 1991, an increase of 5.6 percentage points. During this same time period, the Canadian unemployment rate increased by 2.8 percentage points from 7.5 percent to 10.3 percent. As mentioned earlier, Prince Edward Island's labour force grew at a faster rate (20.8%) than Canada's (15.6%) between 1981 and 1991, and employment opportunities have not been able to keep pace with growth in the labour force. These two factors help explain the gradual increase in the unemployment rate in PEI. With this continual increase in the unemployment rate, one would expect an increase in the number of people depending on unemployment insurance.

4.0 The UI Program on PEI

The Unemployment Insurance Program is extremely important to Prince Edward Island. Because of the seasonal nature of the Island economy, a large number of Islanders depend on unemployment insurance benefits to supplement their income. The total amount of benefits received illustrates Prince Edward Island's reliance on the Unemployment Insurance Program.

4.1 Growth of UI Benefits

Table 3 provides the benefit payments for Canada and the Atlantic Provinces for 1986-1991.

TABLE 3
TOTAL BENEFIT PAYMENTS FOR CANADA
AND THE ATLANTIC PROVINCES 1986-1991 ($000's)

	1986	1987	1988	1989	1990	1991	% Change 1986-1991
Canada	10,513,557	10,440,709	10,852,400	11,528,036	13,189,409	17,695,617	68.3
Nfld.	614,276	651,198	751,775	823,752	848,127	987,021	60.7
P.E.I.	120,047	123,179	138,545	151,154	153,847	189,023	57.5
N.S.	489,805	498,037	527,396	567,091	633,575	763,017	55.8
N.B.	545,562	564,170	609,396	628,535	668,694	802,202	47.0

Source: Statistics Canada 73-001, 73-202S

Prince Edward Island recorded a 58 percent increase in the amount of unemployment insurance benefits received between 1986 and 1991. This increase was less than that of Newfoundland's (61%) and the Canadian total (68%), but larger than the increase recorded for the other Atlantic Provinces.

The amount of unemployment insurance benefits received in Prince Edward Island increased by 22.9 percent between 1990 and 1991. The increase recorded for Canada during this same time period was 34.2 percent. Prince Edward Island experienced a faster rate of growth in unemployment insurance benefits between 1990 and 1991 compared to the other three Atlantic Provinces (PEI - 23%, Newfoundland - 16%, Nova Scotia - 20%, and New Brunswick - 20%).

Total unemployment insurance payments in Canada were $17.7 billion in 1991; Prince Edward Island received $189,023,000 from UI benefits in 1991, representing 1.1 percent of the Canadian total.

According to the June 1, 1991 population estimates, Prince Edward Island's population represents 0.5 percent of the Canadian population. Thus, Prince Edward Island received a higher percentage of unemployment insurance benefits as compared to Prince Edward Island's percentage share of the Canadian population. In 1991, Prince Edward Island received approximately $1,451 in unemployment insurance benefits for each person in the Province. In addition to considering benefits received per person, it is important to consider what contribution UI benefits make to total Gross Domestic Product.

4.2 Contribution of UI Benefits to Provincial GDP

Current statistics indicate that, in 1990, UI benefits constituted 7.7 percent of provincial GDP, or $151.2 million. Table 4 presents the trend of GDP, UI benefits, and UI benefits as a percent of GDP.

TABLE 4
CONTRIBUTION OF UI BENEFITS TO GDP
PEI 1985-1991

Year	GDP	UI Benefits ($ millions)	UI Benefits/GDP (%)
1985	1320	106.9	8.1
1986	1498	120.0	8.0
1987	1589	123.2	7.8
1988	1781	138.5	7.8
1989	1897	151.2	8.0
1990	1991	153.8	7.7
1991	NA	189.0	NA

Source: Statistics Canada, Catalogue 73-001, 13-201

Table 4 illustrates that between 1985 and 1990, the importance of UI benefits to the PEI economy decreased only slightly, as indicated by the decline in the ratio of UI benefits to Provincial GDP from 8.1 percent in 1985 to 7.7 percent in 1990. Thus, total UI benefit payments have grown at approximately the same rate as GDP.

Indirect expenditures resulting from UI payments are also an important factor in the PEI economy. In the Department of Finance July 1989 Economic Trends paper, they quote an income multiplier of 1.27 from a study, "The Short-Run Income Multiplier for Prince Edward Island" by H. Schwartz. Using this multiplier, indirect expenditures from UI benefits would amount to $51 million for PEI in 1991. Clearly, it is evident that the UI program makes a major contribution to economic stability in the PEI economy. It is also interesting to consider what percentage UI benefits are of total income.

4.3 Unemployment Insurance Benefits and Personal Income

Table 5 shows the amount of unemployment insurance benefits paid between 1978 and 1990 for both Canada and Prince Edward Island, as well as the percentage it represents of total personal income.

TABLE 5
Amount of Unemployment Insurance Benefits Paid and Amount of Unemployment Insurance Benefits as a Percentage of Total Personal Income in Prince Edward Island and Canada 1978-1990

Year	Amount of UI Benefits Paid ($000)		UI Benefits Paid as a % of Total Personal Income (%)	
	P.E.I.	Canada	P.E.I.	Canada
1978	45,500	4,536,910	6.3	2.3
1979	43,320	4,008,001	5.4	1.8
1980	46,482	4,393,308	5.3	1.8
1981	52,944	4,828,273	5.1	1.6
1982	69,025	8,575,445	6.1	2.6
1983	81,728	10,169,063	6.7	3.0
1984	98,225	9,985,625	7.2	2.7
1985	106,916	10,226,888	7.6	2.6
1986	120,047	10,513,557	7.5	2.5
1987	123,179	10,440,709	7.4	2.3
1988	138,545	10,852,400	7.4	2.1
1989	151,154	11,528,036	7.6	2.1
1990	153,847	13,189,409	7.2	2.2

Source: Statistics Canada 73-001, 73-202, 13-201

Unemployment insurance benefits account for a much higher percentage of total personal income on Prince Edward Island than in Canada and the other Atlantic Provinces except Newfoundland. In 1990, 7.2 percent of total personal income on Prince Edward Island came from unemployment insurance benefits compared to 2.2 percent for Canada, 3.9 percent for Nova Scotia, 5.4 percent for New Brunswick and 9.3 percent for Newfoundland. Between 1978 and 1990, unemployment insurance accounted for between 5.1 to 7.9 percent of total personal income on Prince Edward Island. During the same time period, unemployment insurance accounted for 1.6 to 3.0 percent of total personal income in Canada.

Another indicator of the importance of unemployment insurance is the amount of benefits received in comparison to the contributions paid to the UI program.

4.4 Amount of Contributions to the UI Program

Employees and employers contribute to the Unemployment Insurance Program through payroll deductions. An employer pays 1.4 times the amount paid by an employee.

Table 6 illustrates the amount of contributions as a percentage of total benefit payments for Canada and Prince Edward Island for 1983-1991.

TABLE 6
Amount of Contributions to Unemployment Insurance From Employees and Employers and Total Amount of Benefit Payments Canada and Prince Edward Island 1983-1991 $ Million

Year	CANADA			PRINCE EDWARD ISLAND		
	Total Employer/ Employee Contributions	Total Benefits	% Contributions of Benefits	Total Employer/ Employee Contributions	Total Benefits	% Contributions of Benefits
1983	7,137.1	10,169.1	70.2	23.9	81.7	29.3
1984	7,902.8	9,985.6	79.1	27.1	98.2	27.6
1985	8,855.6	10,226.9	86.6	30.2	106.9	28.3
1986	9,592.8	10,513.6	91.2	33.0	120.0	27.5
1987	10,514.0	10,440.7	100.7	36.0	123.2	29.2
1988	11,459.0	10,852.4	105.6	39.0	138.5	28.2
1989	10,312.5	11,528.0	89.5	35.6	151.2	23.5
1990	12,710.0	13,189.4	96.4	44.6	153.8	29.0
1991	14,877.0E	17,695.6	84.1	50.0E	189.0	26.5

E - Estimate
Source: Canada Employment and Immigration and Statistics Canada, 73-001

The total contribution from employers and employees in Prince Edward Island was $23,900,000 in 1983 compared to an estimated $50 million in 1991, an increase of 109.2 percent. Total employer and employee contributions in Canada increased by 108.4 percent during this same time period.

Contributions from Prince Edward Island employers and employees form a small portion of the total benefits paid in comparison to Canada and the other Atlantic Provinces except Newfoundland. For example, in 1991, Prince Edward Island employers and employees contributions accounted for 26.5 percent of total benefit payments received by Islanders. In fact, employers and employees paid $50 million but Prince Edward Island received $189 million in benefits in 1991. During this same time period, 84.1 percent of the Canadian total benefit payments came from employer and employee contributions, compared to 23 percent for Newfoundland, 58 percent for Nova Scotia and 42 percent for New Brunswick.

Thus, one can see the importance of the Unemployment Insurance Program to Prince Edward Island. Yet, when examining benefit payments per beneficiary, PEI consistently ranks below the Canadian average.

4.5 Benefit Payments Per Beneficiary

The amount of benefits received per beneficiary was calculated for October 1986-1991 for Canada and the Atlantic Provinces. Table 7 presents the data.

TABLE 7
AMOUNT PER BENEFICIARY FOR OCTOBER - 1986-1991[1]
FOR CANADA AND THE ATLANTIC PROVINCES ($)

	October 1986	October 1987	October 1988	October 1989	October 1990	October 1991	% Change 1986-91
Canada	794	776	853	960	1066	1181	48.7
Nfld.	662	697	871	948	995	1082	63.4
P.E.I.	686	699	822	946	960	1053	53.5
N.S.	737	744	848	937	1062	1032	40.0
N.B.	712	726	838	936	999	1045	46.8

[1] - Figures were calculated by dividing the total benefit payment in the month of October by the number of beneficiaries in the same month.

Source: Statistics Canada 73-001

Prince Edward Island ($1,053) recorded a lower amount of benefits paid per beneficiary for the month of October 1991 than Newfoundland and Canada. The percentage increase in benefits per beneficiary for Prince Edward Island between October 1986 and October 1991 (53.5%) was above the increase recorded for Canada (48.7%) and the other Atlantic Provinces with the exception of Newfoundland. Table 7 illustrates all four Atlantic Provinces experienced increases for all years between October 1986 and October 1991, except for Nova Scotia which experienced a slight decrease between October 1990 and October 1991. Canada recorded a continual increase in the amount of benefits paid per beneficiary between October 1987 and October 1991.

Another key indicator of the importance of UI is the number of people who receive unemployment insurance benefits.

4.6 Number of Unemployment Insurance Beneficiaries

A beneficiary is defined as a person who received an unemployment insurance payment of at least $1.00. Published data are available on the number of beneficiaries by month. The month of October was chosen as a reference month for the number of beneficiaries as it is not considered a high or low employment period in the Province. Table 8 presents the number of beneficiaries in October for Canada and the Atlantic Provinces for 1986 to 1991.

TABLE 8
Number of Beneficiaries in October
For Canada and the Atlantic Provinces - 1986-1991

	October 1986	October 1987	October 1988	October 1989	October 1990	October 1991	% Change 1986-91
Canada	946,550	853,200	860,320	862,040	995,630	1,138,250	20.3
Nfld.	56,840	55,890	59,890	63,810	55,070	62,890	10.6
P.E.I.	9,290	9,080	9,330	10,780	9,280	11,900	28.1
N.S.	41,770	40,620	38,320	42,520	44,850	52,010	24.5
N.B.	46,470	45,240	43,460	46,910	46,670	53,340	14.8

Source: Statistics Canada 73-001

The number of beneficiaries in Canada increased by 20 percent between 1986 and 1991. Considering the Atlantic Region, the number of beneficiaries increased between 1986 and 1991 for all Provinces, with PEI recording the largest increase (PEI - 28%, Nova Scotia - 25%, New Brunswick - 15%, and Newfoundland - 11%). The fact that PEI has had a continual higher participation rate than the other Atlantic Provinces may be attributing to the larger increase in the number of beneficiaries on PEI.

In PEI, the number of beneficiaries decreased by 2.3 percent between October 1986 and 1987. Between October 1987 and October 1989, the number of beneficiaries increased by 18.7 percent; then decreased by 13.9 percent between October 1989 and October 1990, before increasing to the 1991 value. Because of the seasonal nature of the Island economy, there are more people employed during the summer months. For example, in 1991, employment in the Province increased by 27 percent between January and August. This may have contributed to the large increase in the number of beneficiaries. The average number of unemployment insurance beneficiaries in PEI increased by 13.1 percent between 1990 and 1991.

Examining the distribution of UI claimants by occupation is a useful indicator of the primary recipients of UI.

4.7 UI Claimants by Occupation

Unemployment insurance claimant data helps to illustrate the seasonal nature of the Island economy. Table 9 presents the number of claimants by occupation by month for PEI in 1991.

The number of unemployment insurance claims for fishing occupations increased considerably during the winter months. There were 1,393 claims for fishing occupations in June 1991, and 3,179 in December 1991. When considering some of the seasonal occupations, the reliance on unemployment insurance can be seen by the increase in the number of UI claimants during the winter months. For example, between January-March 1991, the average number of claimants in farming, fishing, processing and service occupations accounted for 40 percent of UI claimants, while these same four occupations accounted for 33 percent of the average UI claimants between July-September 1991. On average, during 1991, there were a large number of UI claims in construction (3,013), clerical and related (2,154), service (2,089) (for example, people employed in

the tourism industry), fishing (1,962), occupations not elsewhere classified (1,791) (probably general labourers), processing (1,786) (those employed in food and fish processing), farming (1,309) and transport equipment (1,123).

Clearly, unemployment insurance provides seasonally employed workers with income supplementation during the winter months. Seeing the distribution of UI claimants by occupation and the heavy reliance in occupations such as fishing, it is interesting to examine how the geographic distribution of UI dependency is spread throughout the Province.

Table 9

P.E.I. UNEMPLOYMENT INSURANCE CLAIMANTS BY OCCUPATION
- 1991 -

OCCUPATION	January		February		March		April		May		June	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Total	20,733		21,282		23,058		21,940		21,573		18,789	
Managerial, Admin.	288	1.4	297	1.4	348	1.5	322	1.5	326	1.5	315	1.7
Sciences, Engin.	307	1.5	324	1.5	337	1.5	322	1.5	319	1.5	296	1.6
Social Sciences	157	0.8	164	0.8	177	0.8	164	0.7	156	0.7	162	0.9
Religion	2	0.0	2	0.0	2	0.0	1	0.0	1	0.0	2	0.0
Teaching & Related	296	1.4	287	1.3	326	1.4	289	1.3	295	1.4	312	1.7
Medicine & Health	356	1.7	364	1.7	479	2.1	363	1.7	350	1.6	342	1.8
Artistic, Literary	95	0.5	95	0.4	98	0.4	92	0.4	91	0.4	79	0.4
Sport, Recreation	26	0.1	25	0.1	26	0.1	30	0.1	36	0.2	39	0.2
Clerical and Related	2,253	10.9	2,330	10.9	2,556	11.1	2,378	10.8	2,364	11.0	2,239	11.9
Sales	787	3.8	845	4.0	935	4.1	901	4.1	885	4.1	823	4.4
Service	2,251	10.9	2,314	10.9	2,493	10.8	2,398	10.9	2,362	10.9	2,197	11.7
Farming	1,513	7.3	1,542	7.2	1,575	6.8	1,547	7.1	1,492	6.9	1,339	7.1
Fishing, Hunting	2,887	13.9	2,887	13.6	2,902	12.6	2,897	13.2	2,793	12.9	1,393	7.4
Forestry	195	0.9	199	0.9	204	0.9	202	0.9	195	0.9	178	0.9
Mining	11	0.1	16	0.1	16	0.1	16	0.1	19	0.1	17	0.1
Processing	1,748	8.4	1,811	8.5	2,014	8.7	1,996	9.1	1,957	9.1	1,854	9.9
Machining	231	1.1	241	1.1	240	1.0	245	1.1	239	1.1	225	1.2
Fabricating	642	3.1	667	3.1	682	3.0	663	3.0	597	2.8	552	2.9
Construction	3,244	15.6	3,373	15.8	3,482	15.1	3,546	16.2	3,563	16.5	3,241	17.2
Transport Equipment	1,283	6.2	1,306	6.1	1,343	5.8	1,319	6.0	1,303	6.0	1,155	6.1
Material Handling & Related	186	0.9	184	0.9	197	0.9	200	0.9	193	0.9	183	1.0
Other Crafts Equipment	44	0.2	51	0.2	51	0.2	52	0.2	54	0.3	57	0.3
Occupations not classified elsewhere	1,929	9.3	1,956	9.2	1,980	8.6	1,996	8.7	1,983	9.2	1,789	9.5
Other	2	0.0	2	0.0	595	2.6	1	0.0	0	0.0	0	0.0

Source: Canada Employment and Immigration Commission Administrative Data.

Table 9
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P.E.I. UNEMPLOYMENT INSURANCE CLAIMANTS BY OCCUPATION
- 1991 -

OCCUPATION	July		August		September		October		November		December		Annual Average	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Total	15,603		15,057		14,258		14,480		17,592		21,462		18,819	
Managerial, Admin.	281	1.8	252	1.7	240	1.7	262	1.8	306	1.7	349	1.6	299	1.6
Sciences, Engin.	255	1.6	222	1.5	210	1.5	228	1.6	250	1.4	293	1.4	280	1.5
Social Sciences	154	1.0	174	1.2	160	1.1	171	1.2	183	1.0	186	0.9	167	0.9
Religion	3	0.0	5	0.0	4	0.0	5	0.0	5	0.0	4	0.0	3	0.0
Teaching & Related	327	2.1	495	3.3	477	3.3	447	3.1	372	2.1	345	1.6	356	1.7
Medicine & Health	360	2.3	359	2.4	328	2.3	339	2.3	379	2.2	398	1.9	368	2.0
Artistic, Literary	66	0.4	54	0.4	55	0.4	75	0.5	82	0.5	93	0.4	81	0.4
Sport, Recreation	37	0.2	40	0.3	39	0.3	42	0.3	32	0.2	36	0.2	34	0.2
Clerical and Related	1,962	12.6	1,866	12.4	1,714	12.0	1,800	12.4	2,093	11.9	2,293	10.7	2,154	11.4
Sales	745	4.8	638	4.2	577	4.0	636	4.4	755	4.3	821	3.8	779	4.1
Service	1,831	11.7	1,543	10.2	1,408	9.9	1,688	11.7	2,172	12.3	2,410	11.2	2,089	11.1
Farming	1,183	7.6	1,131	7.5	1,034	7.3	928	6.4	1,020	5.8	1,406	6.6	1,309	7.0
Fishing, Hunting	473	3.0	705	4.7	823	5.8	797	5.5	1,810	10.3	3,179	14.8	1,962	10.4
Forestry	144	0.9	126	0.8	111	0.8	100	0.7	120	0.7	160	0.7	161	0.9
Mining	12	0.1	14	0.1	12	0.1	12	0.1	10	0.1	14	0.1	14	0.1
Processing	1,584	10.2	1,641	10.9	1,612	11.3	1,547	10.7	1,730	9.8	1,937	9.0	1,786	9.5
Machining	204	1.3	194	1.3	193	1.4	187	1.3	191	1.1	227	1.1	218	1.2
Fabricating	492	3.2	449	3.0	391	2.7	413	2.9	477	2.7	578	2.7	550	2.9
Construction	2,763	17.7	2,486	16.5	2,352	16.5	2,356	16.3	2,621	14.9	3,135	14.6	3,014	16.0
Transport Equipment	958	6.1	977	6.5	900	6.3	865	6.0	906	5.2	1,158	5.4	1,123	6.0
Material Handling & Related	154	1.0	157	1.0	161	1.1	160	1.1	181	1.0	195	0.9	179	1.0
Other Crafts Equipment	53	0.3	50	0.3	45	0.3	48	0.3	50	0.3	55	0.3	51	0.3
Occupations not classified elsewhere	1,562	10.0	1,479	9.8	1,412	9.9	1,374	9.5	1,847	10.5	2,190	10.2	1,791	9.5

Source: Canada Employment and Immigration Commission Administrative Data.

4.8 UI Dependency Ratio by Region

Statistics Canada provides a measurement of reliance on unemployment insurance by the ratio of UI benefits to employment income. The higher the ratio, the more important unemployment insurance benefits are to the area.

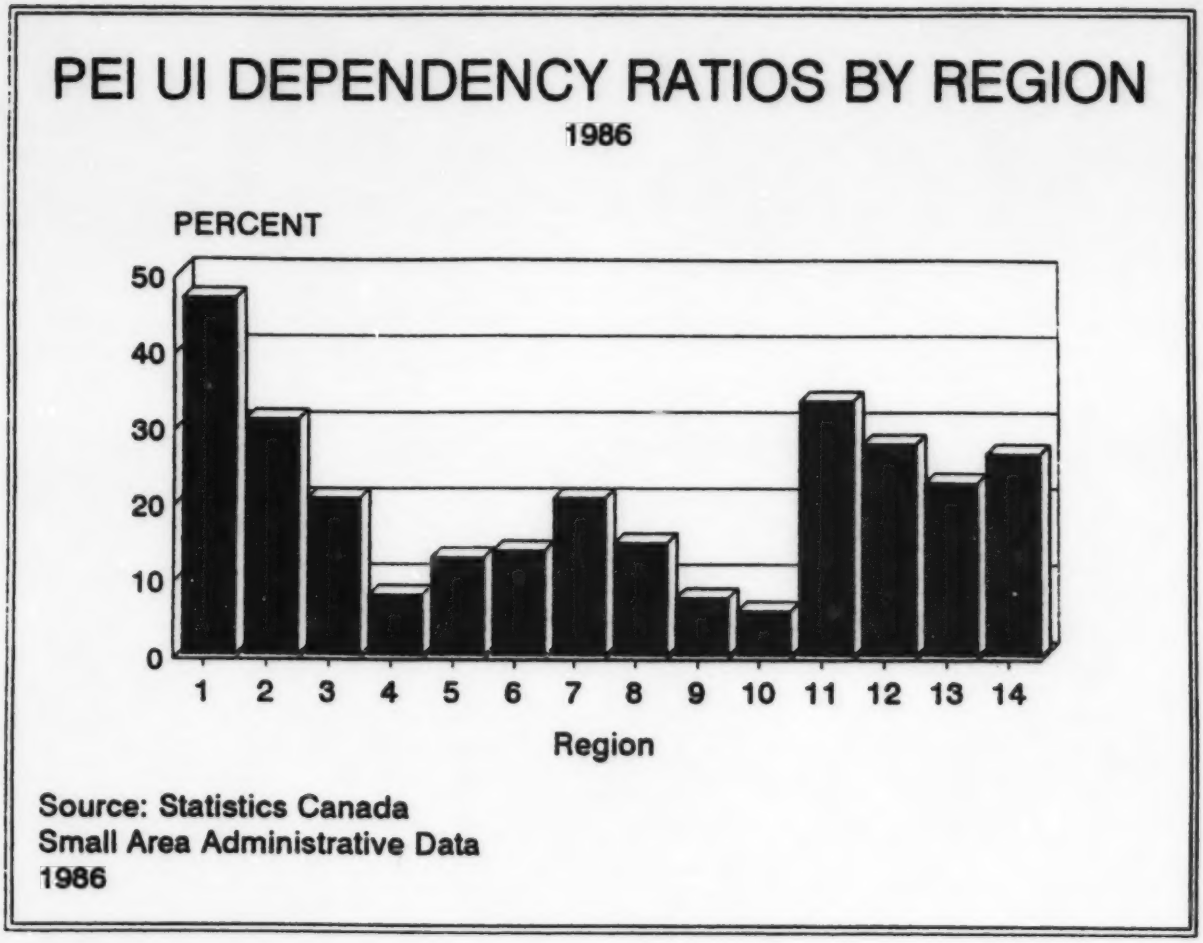
Reliance on unemployment insurance at the subprovincial level in PEI is predominantly a function of the nature of the local economic base, and to a lesser extent, general economic conditions. Figure 3 illustrates UI benefits as a percentage of employment income by subprovincial area for 1986. Figure 3 effectively illustrates the distinct difference in ratio of UI benefits to employment income between rural and urban areas of the Province. For example, the Upper West Prince area (which includes Alberton, Bloomfield, Elmsdale, Miminegash, St. Louis and Tignish) is reliant on fishing and entitlement to fishermen's unemployment insurance benefits and on the UI program to provide approximately 47 cents in unemployment insurance benefits for every $1.00 in employment income. Conversely, the Central Charlottetown area, which is a less seasonal urban economy, was relied on the Program to provide only approximately 6 cents in unemployment insurance benefits for every $1.00 in employment income.

The primary reasons accounting for this rural-urban split are:

- the reliance on agriculture and fishing in rural areas; and
- the seasonality of the PEI economy.

After the 1971 revisions to the UI Act, there was a greater reliance on unemployment insurance as UI benefits increased by 120 percent for PEI and 110 percent for Canada. This was mainly a result of the increased coverage for workers as more jobs became insurable and coverage was expanded to include sickness, maternity and retirement. However, this trend did not continue into the 1980's.

FIGURE 3



List of Regions:

1. Upper West Prince
2. Lower West Prince
3. West Summerside
4. Central Summerside
5. South Summerside
6. North Summerside
7. West North Shore
8. North Shore
9. West Charlottetown
10. Central Charlottetown
11. Lower East Kings
12. North East Kings
13. East Queens
14. South Kings

Table 10 presents the percentage of tax filers who received UI benefits at some point during 1984, 1986 and 1988 by the same subprovincial areas.

TABLE 10

PERCENTAGE OF TAX FILERS RECEIVING UI BENEFITS BY SUBPROVINCIAL AREA

Sub-Provincial Area	1984 (%)	1986 (%)	1988 (%)
Upper West Prince	59	61	58
Lower West Prince	47	48	47
West Summerside	46	45	41
Central Summerside	26	28	26
South Summerside	32	34	34
North Summerside	34	35	33
West North Shore	44	43	41
North Shore	34	37	34
West Charlottetown	27	23	22
Central Charlottetown	23	23	20
Lower East Kings	53	56	52
North East Kings	53	55	51
East Queens	41	43	41
South Kings	49	52	49

Source: Statistics Canada, Catalogue 17-602

Table 10 shows that the number of residents receiving UI benefits did not change significantly between 1984 and 1988. For example, in the West Summerside area, 46 percent of residents had received some amount of unemployment insurance benefits in 1984. By 1988, this percentage had decreased to 41 percent. Similarly, in the Central Charlottetown area, this percentage decreased by three percentage points from 23 percent in 1984 to 20 percent in 1988.

Considering the challenges and opportunities facing PEI in the 1990's, a short-term forecast is necessary in order to estimate the unemployment rate and assess the potential impacts on the uptake of the UI program.

5.0 Forecast of the Unemployment Rate

The PEI economy faces a number of challenges and opportunities on both the demand side and the supply side. With respect to the demand for PEI products, and hence, the demand for labour, PEI producers face an increasingly competitive marketplace resulting from the general trend toward economic globalization, implementation of the Canada-US Free Trade Agreement and creation of large trading blocks, as well as fiscal restraint and restrictive monetary policy. All of these factors have contributed to major structural changes in the Canadian economy, and to a lesser extent, the PEI economy. Businesses will have to market aggressively and adopt new technologies to lower production costs in order to remain competitive.

On the supply side, this report has shown that labour force participation rates in PEI are increasing. Particularly female labour force participation have increased dramatically. The combination of a recessionary economy and growing labour force has meant that unemployment rates have reached record high levels in 1991. This has been exacerbated by the closure of CFB Summerside. In turn, this had led to an increase in the number of people who utilize the UI program.

In its October 1991 forecast, the Conference Board of Canada forecast the average annual unemployment rate for PEI would increase by 1.8 percentage points in 1991 from 14.9 percent in 1990 to 16.7 percent in 1991. Statistics Canada reported an average annual unemployment rate of 16.8 percent for PEI for 1991.

For 1992 and 1993, the Conference Board of Canada is forecasting PEI's unemployment rate to be 16.6 and 16 percent respectively.

Should unemployment rates continue to remain at high levels, there will be a continual demand on the UI Program.

6.0 Summary and Conclusions

The UI Program originated in 1940 as a social insurance program to provide income protection during times of unemployment. The UI Program has undergone a number of changes in keeping with changing economic and social conditions.

The main role of the UI Program was to serve as income protection during loss of employment. Although these were not clearly defined as objectives of the Program, the UI program serves a number of other roles such as income re-distribution, economic stabilization and labour market adjustment.

There are several different types of unemployment. This report discusses and defined the following five types: frictional, structural, demand-deficient, seasonal and insurance induced.

There are a number of factors influencing the unemployment rate on PEI. Some of these factors are:

- increases in the working age population resulting from the aging of the baby boom generation as well as changes in immigration policy;
- increases in labour force participation resulting mainly from the aging of the baby boom generation and the increasing participation of females in the labour force;
- seasonal nature of the Island economy and the fact that the economy has become more seasonal; and,
- impacts on employment levels from the 1990-91 recession as well as Federal Government policy changes.

The Provincial labour force has grown at a faster rate (20.8%) than the Canadian labour force (15.6%). Although employment levels in PEI grew at a faster pace (12.8%) than in Canada (12.2%) during the last decade, growth in employment on PEI has not been able to keep pace with growth in the labour force. Between 1981 and 1991, PEI's labour force increased by 11,000 while employment levels increased by 6,000 during this same time period. These two factors help to explain the continual rise in the unemployment rate on PEI.

The importance of the UI Program to the PEI economy is very significant due to the fact that the economic base of the Province lies in seasonal industries and the unemployment rate has increased because of economic conditions. A variety of indicators show how important the UI Program is to PEI. For example, during 1991, the UI Program injected approximately $189 million into the PEI economy.

Current statistics indicate that in 1990, UI benefits contributed 7.7 percent to provincial GDP. Similarly illustrating the importance of UI is the fact that in 1990, UI benefits accounted for 7.2 percent of total personal income.

In 1991, total UI premiums paid by PEI employers and employees were 26.5 percent of the total benefits received by the Province. Hence, UI is an effective method of distributing equalization funding. PEI is a net recipient of UI benefits.

Between October 1986 and October 1991, the number of UI beneficiaries on PEI increased by 28 percent from 9,290 to 11,900. In comparison, the number of beneficiaries in Canada increased by 20 percent between 1986 and 1991.

Not surprisingly, UI claimants by occupation data indicates that the majority of UI claims are in seasonal industries such as fishing and construction. Correspondingly, dependence on unemployment insurance is higher in rural PEI where the economic base is in seasonal industries such as fishing, and much lower in urban PEI where employment is less seasonal. For example, in the Upper West Prince area, which is reliant on fishing, the ratio of UI benefits to employment income was 47 percent in 1986. Conversely, in the central Charlottetown area, this ratio was approximately 5.8 percent in 1986.

In its October 1991 forecast, the Conference Board of Canada is forecasting PEI unemployment rate for 1992 and 1993 to be 16.6 and 16 percent respectively. The annual average unemployment rate for PEI in 1991 was 16.8 percent.

In conclusion, the unemployment insurance program serves several important functions in the economic development process and is very important to the stability and the economic and social welfare of PEI.